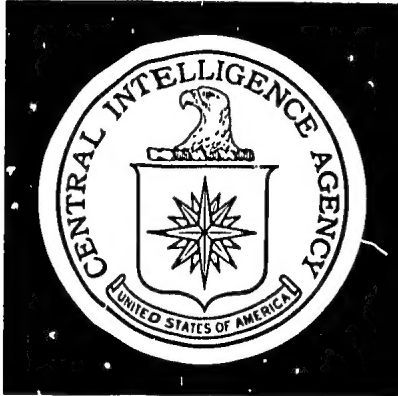


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Policies of the New Spanish Cabinet

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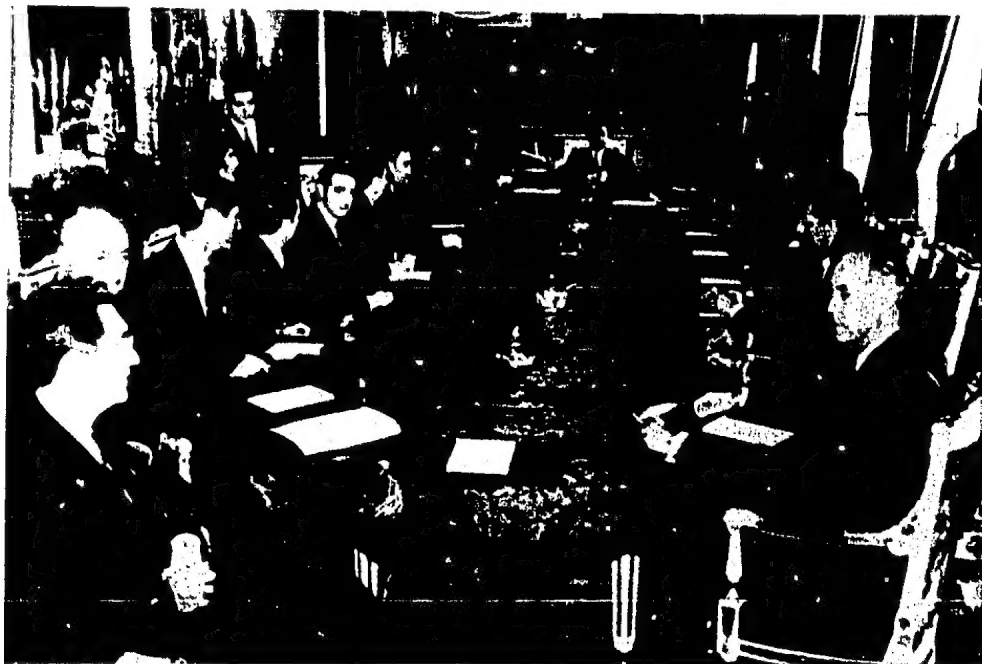
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POLICIES OF THE NEW SPANISH CABINET

When General Franco announced sweeping changes in his cabinet last October the move aroused much interest because it is likely that this government will take Spain into the post-Franco era. Cabinet reshuffling in Madrid has been infrequent—the last major change took place in July 1965. In making his choices this time, Franco abandoned his usual policy of keeping a balanced representation of all the major groups that support him and gave the largest number of portfolios to businessmen and technical experts who are either members of or associated with members of the influential Catholic lay organization Opus Dei. These men, called "technocrats" because of their economic orientation, believe that the political evolution of Spain requires stronger socioeconomic foundations. In keeping with this belief, they propose to give priority to the economic modernization of the country. Political liberalization, in their view, can wait.

Shortly after formation of the cabinet, a leading member announced that the government had no intention of giving impetus to the very cautious political evolution that has been taking place in Spain in recent years and that it would instead place emphasis on changes in foreign policy, especially in improving ties with Europe. Ironically, this important goal is unlikely to be achieved until political liberalization takes place.



New Cabinet Appointed October 1969

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THE LEADERSHIP

The outstanding man in the new cabinet is one of only six survivors of the old one, Laureano Lopez Rodo, Economic Planning Minister. He has emerged as chief policy maker and has the support of Vice Premier Carrero Blanco, the principal



Minister of Economic
Planning
Lopez Rodo

government figure after Franco. Lopez Rodo's training, his wide government and academic experience, his economic and political expertise, and his membership in Opus Dei all serve to enhance his position and to make him the leader of a team that includes several of his former subordinates in economic planning as well as several colleagues in Opus Dei.

INITIAL POLICY STATEMENT

After its first meeting on 31 October, Vice Premier Carrero Blanco issued a policy statement on behalf of the new government. In the domestic field the statement emphasized general goals such as better social welfare programs, education reforms, equitable distribution of wealth and the strengthening of local government. There was also a pious statement of the cabinet's intention to give full information on its actions in order to receive the benefit of public reaction.

In international affairs, the statement noted that Spain belonged to the Western world and would formulate its foreign policy accordingly. It further stated that negotiations with the Common Market would be stressed and friendship with Portugal reaffirmed. It added that the government

would strengthen relations with Latin America and with the United States. This was followed in mid-November by an interview given by Lopez Rodo in which he stated that the new government would emphasize changes in foreign policy rather than internal politics. This remark confirmed the general intention of the new government with regard to closer ties with the Common Market and relations with the United States.

**ROLE OF FOREIGN MINISTER
LOPEZ BRAVO**

The chief spokesman of the new cabinet on foreign affairs is the new foreign minister, Gregorio Lopez Bravo, who also is one of the six holdovers from the previous cabinet, in which he was minister of industry. A go-getter with an attractive personality, he immediately started a flurry of diplomatic activity. In a newspaper interview in December, after little more than a month in office, he explained his approach to his job. After noting that, because of social, historical, and political factors, there were many "constants" in Spanish foreign policy, he declared that the main changes that a foreign minister could make were in priorities and methods of operation.

As part of his activist approach, Lopez Bravo is using personal visits to foreign countries to make Spain's views better known. Since his appointment last October he has made eight trips abroad (see map). He also received German Foreign Minister Scheel in Madrid on 22-23 April.

Lopez Bravo is also interested in having Spain play the role of a power with global interests. He has stated, "Spain must not only have a foreign policy, it must participate in international politics." By interjecting himself into international matters, he hopes to promote both himself and Spain.

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In addition to making more use of travel than did his predecessor, Lopez Bravo has employed a more tactful approach to foreign policy problems. For example, in the dispute with the



Foreign Minister
Lopez Bravo

United Kingdom over Gibraltar—a perennial point of friction—Lopez Bravo has played down differences and concentrated on aspects on which some progress might be made. In attempting to reduce tension with the UK over Gibraltar, Madrid agreed last November to suspend further discussion of the problem in the United Nations. The Spanish press moderated

its coverage of the subject and adopted a friendlier tone toward the UK. There was no implication that Spain would give up its claim to Gibraltar, but Lopez Bravo stated in an interview that the Rock would no longer be the magnetic pole of Spanish foreign policy. Lopez Bravo and the British ambassador in Madrid have had informal exchanges this month concerning the sort of cooperation that might eventually take place between Spain and Gibraltar once present border restrictions are removed. The problem remains, but it has been reduced somewhat as an obstacle to other Spanish goals.

IMPORTANCE OF TIES WITH EUROPE

The new cabinet's real push to identify Spain with Europe is concentrated on efforts to reach an agreement with the European Communities (EC). Although Spain wants full membership or association with the EC, political opposition to the Franco regime within some of the six countries has made that impossible. The

new cabinet has continued earlier negotiations for a two-stage preferential trade agreement, and terms were concluded in March. Final approval by the EC is expected in June. During the first stage, to last six years, Spain will reduce tariffs by an average of 25 percent on most of the manufactured goods that it imports from the EC (by 60-70 percent on some items), and the EC will reduce tariffs by about 60 percent on most imports of Spanish manufactured goods. Both Spain and the EC will also reduce trade barriers on selected agricultural products. The character of the second stage was left undefined, but Spain hopes that it will lead to eventual association.

In pursuit of these closer ties, Lopez Bravo has met with the foreign ministers of all six EC countries. For instance, his trip to Paris in February promoted closer relations with France, which in turn could help Spain in its plans to play a larger role in international affairs. The two foreign ministers in their talks stressed their similarity of views on international questions. France agreed to sponsor Spain's return to full participation in European affairs, including support of Madrid's effort to establish a relationship with the EC. Lopez Bravo emphasized to the French that, in developing closer ties with Paris, Spain did not wish to detract from cordial relations with its other allies.

The most notable accomplishment of the Paris visit was the signing of an agreement under which Spain contracted to purchase 30 Mirage aircraft. Under a special provision, almost half of the aircraft construction will be performed in Spain. Madrid is also considering the purchase of French tanks.

During the past several months Spain and France have also discussed the possibility of forming a Mediterranean "pact" to ensure the security of the western Mediterranean. It is not

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clear which side revived this idea, as both De Gaulle and Franco have espoused it in the past. The pact, which may be no more than an agreement to consult, would include France, Spain, Italy, Greece, and certain Maghreb countries, or some combination of these. According to some sources, it would supplement NATO efforts in the Mediterranean. Spain is interested because of its concern over expansion of Soviet influence in the area. Madrid may feel that pact consultations would improve its relations with the Maghreb countries, but its main reason would be the opportunity to enhance its international standing and improve its chances of eventually getting into NATO. Lopez Bravo told Secretary Rogers last month that he had discussed with the French how such a pact arrangement might be achieved, but that Spain would act with the full understanding and support of the United States. The idea is likely to remain a French-Spanish project, for an Italian official has already said his country would not be interested, and participation of the Maghreb countries at this time is doubtful.

IMPROVED RELATIONS WITH THE USSR AND EASTERN EUROPE

The cabinet is interested in stepping up relations with the Soviet Union and the Eastern European countries. An indication of this goal was the brief stopover that Lopez Bravo made in Moscow en route to Manila last December, when he met with a Soviet Foreign Ministry official at the airport. Lopez Bravo is influenced by his long-time support for increasing Soviet-Spanish trade as well as by the possibility that better relations would put Madrid in line with the efforts of the EC countries to expand ties with Eastern Europe.

The main development since Lopez Bravo's visit was the arrival in Madrid in late March of a Soviet shipping delegation to set up an office

under terms of the port facilities agreement signed in February 1969. This may lead to eventual subdiplomatic relations. The Soviets are also pressing for a TASS office in Spain and the establishment of Madrid-Moscow flights by Soviet and Spanish airlines. Madrid is likely to move slowly, however, on giving the Soviets any significant presence in Spain. It believes it must balance its desire for improved trade and relations with its concern over Soviet expansion in the Mediterranean area.

The present cabinet has continued the policy of its predecessor in establishing formal consular relations with Eastern European countries. This policy began with Romania in 1967 and was followed with Poland in July 1969 and Hungary in December. Negotiations for consular relations have been undertaken with Bulgaria, and a similar move with Czechoslovakia is expected.

The Spanish Government has accepted in principle the Warsaw Pact proposal for a conference on European Security. The Spaniards have indicated publicly their strong support for this proposal with the proviso that the United States and Canada participate and that it have careful preparation. They are urging that a date for the conference be set before September, a stand that goes beyond the more cautious NATO position.

POLICY TOWARD THE UNITED STATES

While devoting considerable attention to the promotion of Spain's ties with Europe, the new government has not neglected relations with the United States. In fact, Lopez Bravo immediately raised the matter of beginning negotiations on a new relationship to replace the bilateral defense agreement that expires next September. Spanish discontent with the amount of grant aid offered by the United States during negotiations for renewal of the agreement in 1968 led Madrid to

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refuse to sign by the deadline and to invoke a consultation period that finally resulted in a shorter renewal period than the five years stipulated in the original agreement. In negotiations now under way, the Spaniards say they have abandoned the idea of rent for the bases. Instead they are stressing the need to replace the present US control over the bases with a "truly shared" US-Spanish control mechanism. They are also interested in having the new agreement permit Spain to participate along with NATO in decisions involving European defense. Also, Madrid desires to increase and strengthen commitments to defend the Spanish security area. But the new government appears to want to continue its special tie with the United States and to expand it by including nonmilitary items such as aid to education. Although Spain could still make unreasonable demands, it seems likely that it will accept some sort of compromise that can be presented to the Spanish people as an increase in international prestige.

One immediate possible irritant in US-Spanish relations may arise from the preferential trade agreement Spain has negotiated with the European Communities. Because Madrid is desirous that the agreement will lead to eventual association with the EC, it hopes Washington, which generally opposes preferential trading agreements, will leniently interpret the GATT provision requiring that such agreements have a definite time schedule for full association.

RELATIONS WITH OTHER AREAS

Although the cabinet's initial policy statement omitted any reference to Spain's relations with the Arab countries, Lopez Bravo later explained that this did not mean any neglect or change in Madrid's traditional ties with the Arab states. To reaffirm this, he made an official visit to Cairo last January and to Rabat in early May.

He also invited Nasir to visit Madrid. In addition, agreement has been reached to permit the Arab League to open an office in Madrid. Concurrently with the new flexibility, however, Lopez Bravo also softened Madrid's usual hard line toward Israel, which it does not recognize, when he stated in an interview in March that Spain's friendship with the Arabs does not mean that it is an enemy of Israel.

Lopez Bravo is also interested in expanding Spanish relations in Asia. He was able to do this and also promote Spain's ties with the former Hispanic nations by going to Manila last December for the inauguration of President Marcos, at which time he offered a \$10-million Spanish credit to the Filipinos. He also used that occasion to meet the Mexican foreign minister, and this led to an understanding that their ambassadors in Washington would hold talks regarding the establishment of consular relations.

ECONOMIC POLICIES

The new cabinet is following the economic programs of its predecessor, at least for the immediate future. This was to be expected because Economic Planning Minister Lopez Rodo, who held the same position in the outgoing cabinet, played a leading role in devising those plans. Inasmuch as a majority of technocrats in the present cabinet were chosen on his recommendation, Lopez Rodo should be better able to implement his plans now.

Essentially economic policy is governed by the Second Economic and Social Development Plan, which was adopted in February 1969 to run through 1971. This plan, as did its predecessor, attempts to set target performances for each sector of the economy so that each will know where the related sectors and the economy as a whole are headed. The Second Plan seeks a more

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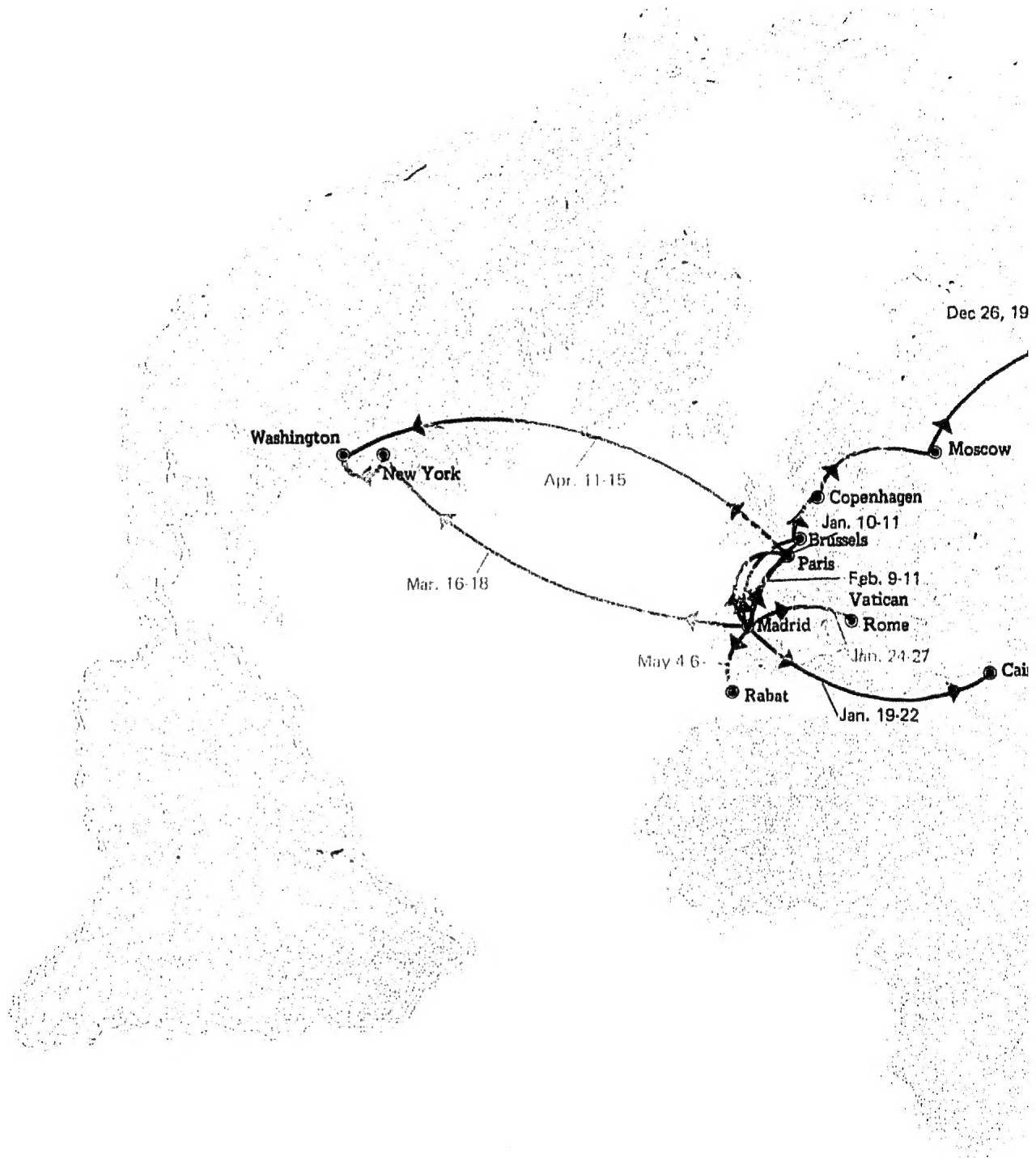
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Travels of Foreign Minister Lopez Bravo



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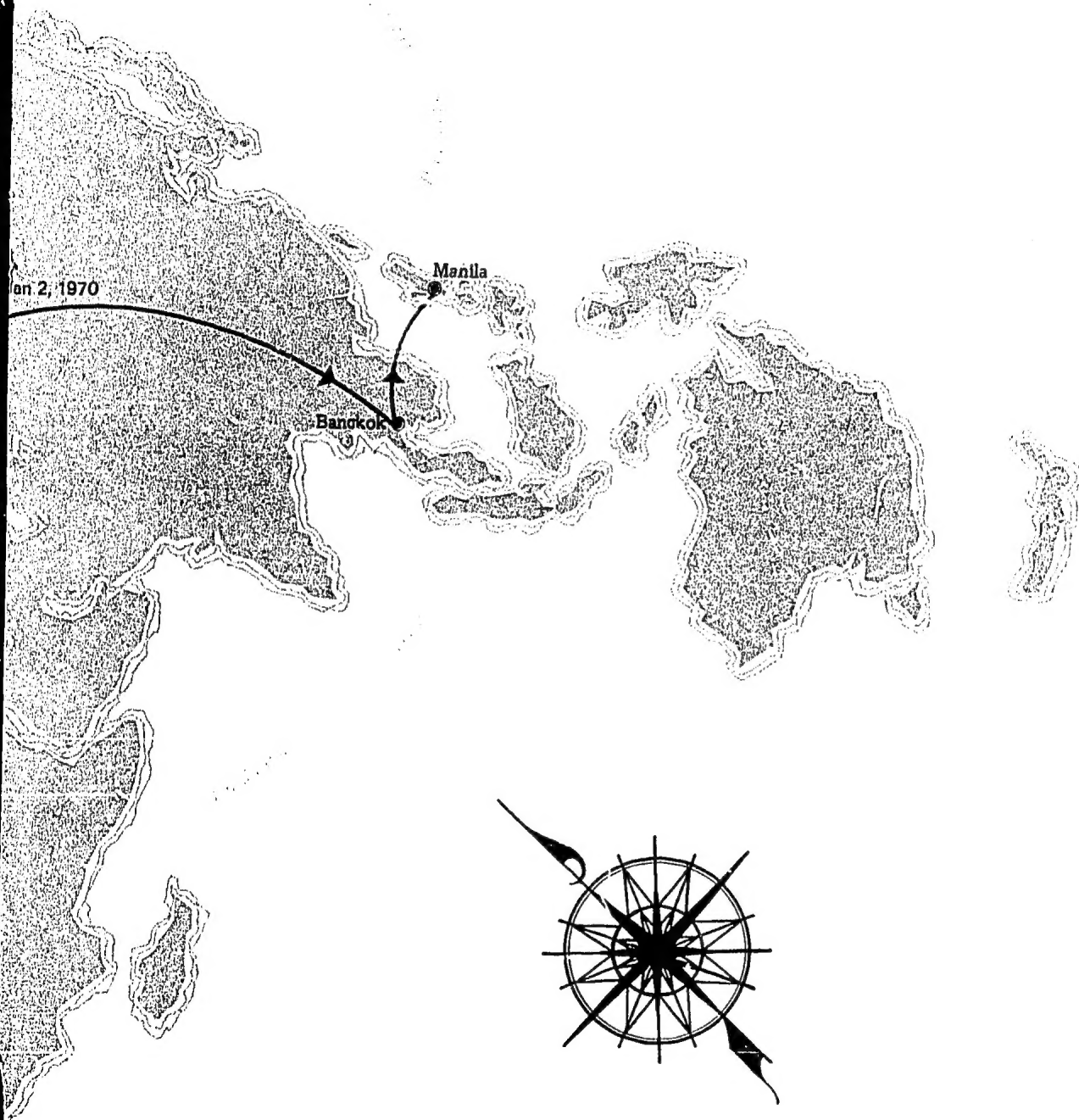
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rational allocation of resources in order to achieve the greatest long-run economic growth and to increase the competitiveness of the economy with a view to further integration into the world economy. The plan stresses improvement in agriculture, which has lagged behind other sectors of the economy, as well as in basic industries, transport, and communications. It emphasizes the need for more and better education, scientific research, housing, and urban services. It aims at a 5.5 percent average annual growth of GNP for the period through 1971 and will attempt to bring about an increase in investment—especially in export-oriented industries—relative to total consumption.

When the new cabinet took over, there was need for prompt action to restrain the growth of domestic demand and to cool the economy. Although the government has pledged to take the action necessary to maintain stable growth, it has appeared to be reluctant to promulgate deflationary measures because these would be politically unpopular. The new cabinet's primary line has been to continue the tight monetary policy initiated by its predecessor for controlling inflation. Thus it has continued for 1970 the 18 percent annual ceiling on new bank credit established last September, and has raised the rediscount rate of the Bank of Spain to 6.5 percent.

The cabinet has also moved to postpone government spending by ordering an indefinite delay of 10 percent of planned central government expenditure projected in the 1970 budget, which contained a 12 percent increase over the 1969 budget approved by the old cabinet. The government also imposed a 20 percent predeposit requirement on all imports in hopes of cutting down Spain's enormous trade deficit, which was responsible for the 1969 balance-of-payments deficit.

On the other hand, the cabinet yielded to worker demands for better pay by approving a 17.6 percent increase in the general minimum wage effective on 1 April. This was a raise from 102 pesetas (\$1.45) to 120 (\$1.70) a day. Notwithstanding the government's contention that a minimum-wage raise is not inflationary because it affects only a small group of unskilled workers, most impartial observers believe that this increase will inevitably have a booster effect upon wages in general. The government maintains limited controls on wages and prices, which are more guidelines than limits to be enforced directly.

The new cabinet reportedly intends to see how well the present regulations work before proceeding further. It is also concerned with increasing Spain's exports, and this goal is reflected in the moves to build closer ties with both Western and Eastern Europe, and with the USSR.

IMPACT ON DOMESTIC PROBLEMS

The new cabinet immediately impressed observers with its alertness and competence and gave the impression of working as a team. US officials who have had contacts with the ministers have remarked on how well informed they are on important issues, including those outside the competence of their ministry. This spring, however, reports are being heard of a lack of coordination and a rise in frustrations within the cabinet. Although a certain amount of this reporting may be chalked up to the propensity of informed Spaniards to gossip about political figures, there are some problems at the root of it.

Among these is the MATESA scandal. This involves the misuse of some 10 billion pesetas (around \$143 million) of government export credits by a fast-expanding company, *Maquinaria Textil del Norte de Espana, SA* (MATESA).

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Because government approval was required to get these credits, and technocrats associated with Opus Dei were involved in approval of these transactions, opponents of the Catholic organization have tried to blame Opus Dei ministers. The ministers of commerce and finance may have been dropped in the October cabinet changes in response to pressure to find those ultimately responsible, but the official investigation to determine responsibility and decide who should be punished has continued. The company president and several associates this week were given stiff fines and sentenced to prison terms of up to three years. Recently the investigation has been moved to the level of the Supreme Court so that ministers or ex-ministers can be indicted if necessary. This action implies that Franco himself has decided to let the case run its full course. Although the most likely result would be the indictment of the ex-ministers of finance and commerce, it could involve ministers in the present cabinet. The two most rumored possibilities are Foreign Minister Lopez Bravo, formerly the minister of industry, and Education Minister Villar Palasi, formerly a legal adviser to MATESA. It would be contrary to Franco's usual way of operating to let a case go so far as to involve a member of so recently chosen a cabinet, however. Consequently, some solution not involving the present cabinet is likely to be found. However, the widespread criticism that the case has aroused makes it difficult to rule out entirely Franco's letting the chips fall where they may.

Other difficult problems confronting the cabinet are financing the new education reform program, replacing old guard officials in the Na-

tional Movement with more moderate officials, and living with the current budgetary restrictions on ministerial programs. These restrictions may have been involved in the recent resignation of Minister of Public Works Silva Munoz. He mentioned family reasons, but some observers see his departure as a strategic withdrawal to avoid being identified with a cabinet that may be embarrassed by the MATESA scandal. As the member of a rival Catholic Action group, Silva Munoz may have considered himself outnumbered in the new cabinet and ready to build up political contacts outside the government.

OUTLOOK

Last month after two leading Madrid newspapers published separate articles about the need for political liberalization in Spain, the editors of one of them, *ABC*, were ordered to print an article by one Gines de Buitrago, which, it soon became known, was a pseudonym for Franco and Carrero Blanco. In an angry rebuttal to critics of the present system, the authors likened calls for political democracy after the ills that existed prior to the present government as comparable to advising a reformed alcoholic to return to drink. The article made it evident that the regime does not intend to permit changes in the present political setup. Such a warning against democracy does nothing to help efforts of the technocrats to lead Spain to reintegration into Western Europe. But the technocrats are pragmatists and are willing to work toward long-range goals to be achieved after Franco goes.

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